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Message Text

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APPROVED BY ARA/AND/P - MR. KEMP
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C O N F I D E N T I A L STATE 123341

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: MEETING OF SECRETARY BLUMENTHAL WITH FOREIGN
MINISTER DE LA PUENTE

1. BEGIN SUMMARY: ON MAY 9, FOREIGN MINISTER DE LA PUENTE MET WITH TREASURY SECRETARY BLUMENTHAL FOR A FRANK EXCHANGE OF VIEWS ABOUT PERU'S CURRENT FINANCIAL DILEMMA, STATUS OF NEGOTIATIONS WITH THE FUND, DECISION TO RESCHEDULE OFFICIAL DEBT, AND THE POSSIBILITY FOR INCREASED FINANCIAL ASSISTANCE FROM THE U.S. END SUMMARY. ALSO IN ATTENDANCE AT THE BILATERAL FOR PERU WERE: GARCIA BEDOYA, AMBASSADOR; ALFONSO ROVERO, CHIEF OF STAFF OF FOREIGN MINISTRY; MANUEL MOYREYRA, PRIVATE LAWYER; LUIS PARADES, PRESIDENT OF THE INTERNATIONAL ASSOCIATION OF MANUFACTURES; AND TWO
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EMBASSY COUNSELORS, JOSE TORRES MUGA AND JULIO VEGA. IN ATTENDANCE FOR THE U.S. WERE: U.S. AMBASSADOR TO PERU SHLAUDEMAN; TREASURY UNDER SECRETARY SOLOMON; DEPUTY ASSISTANT SECRETARY NACHMANOFF; SPECIAL ASSISTANT RICHARD FISHER; AND DEPUTY OFFICE DIRECTOR FRANK MARESCA.

2. STATUS OF AGREEMENT WITH THE FUND: FOREIGN MINISTER

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DE LA PUENTE ASKED FOR GOOD WILL FROM TREASURY. UNDER-
STANDING THAT DIRECT HELP WAS RATHER DIFFICULT, THE

FOREIGN MINISTER THEN ASKED FOR HELP WITH "INSTITU-
TIONS WHERE YOU HAVE A FREER HAND" ADDING THAT ENCOURAGING
THE FUND TO TALK TO BANKERS IS PARTICULARLY IMPORTANT AT
THIS TIME. THE GOP HOPES THAT THE COMMERCIAL BANKERS
WILL EXTEND AN $80 MILLION BRIDGE LOAN BASED ON THE
FOLLOWING STATEMENT FROM THE FUND. QUOTE, PERU HAS
ADOPTED A SERIES OF MEASURES DESIGNED TO REDUCE THE FISCAL
DEFICIT AND TO MOVE THE EXCHANGE RATE IN THE RIGHT DIREC-
TION. THESE MEASURES, PLUS OTHERS WHICH PERU HAS
UNDERTAKEN TO ADOPT SHORTLY, CONSTITUTE ENCOURAGING STEPS
TOWARD ADJUSTMENT. THE STAFF OF THE FUND HOPES THAT IT
WILL BE POSSIBLE TO RENEGOTIATE THE STAND-BY WITH PERU
AT A LATER STAGE, UNQUOTE. THE SECRETARY COMMENTED THAT
HE WAS DOUBTFUL THAT THIS STATEMENT WOULD BE SUFFICIENTLY
DEFINITIVE TO ENCOURAGE THE BANKS TO ACT BECAUSE IT IS A
STATEMENT OF EXPECTATION RATHER THAN OF SPECIFIC ACTION
AND THAT THE KEY TO ALL EXTERNAL HELP IS A PROGRAM WITH
THE FUND. (FYI--SUBSEQUENTLY WE HAVE LEARNED THAT THE
FUND WILL ISSUE ITS STATEMENT MINUS THE LAST SENTENCE
AFTER THE BULK OF THE MEASURES ARE PUBLICALLY ANNOUNCED
IN PERU.)

3. THE FOREIGN MINISTER ADDED THAT BASED ON THE FUND
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STATEMENT, OCCIDENTAL PETROLEUM AS A GESTURE OF GOODWILL
IS ADVANCING $25 MILLION IN FOREIGN EXCHANGE TO PERU WHICH
WILL BE USED FOR INVESTMENT IN THE FUTURE AND WILL BE
DRAWN DOWN IN LOCAL CURRENCY. THIS AMOUNT MAY BE MATCHED
BY THE BANK OF NOVA SCOTIA WHICH HAS LESS STRINGENT
CONTROLS THAN U.S. BANKS. THE GOP HOPES TO RESUME NEGO-
TIATIONS WITH THE FUND THE SECOND OR THIRD WEEK IN MAY.
PRESIDENT MORALES BERMUDEZ, THROUGH THE FOREIGN MINISTER,
PROMISED THAT ALL THE AUSTERITY MEASURES WILL BE ANNOUNCED
ALMOST IMMEDIATELY, BUT THE TWO MOST "SENSITIVE" MEASURES,
A GASOLINE PRICE INCREASE AND THE REDUCTION OF FOOD
SUBSIDIES, WILL BE ANNOUNCED ON JUNE 6 AFTER THE CONSTIT-
UENT ELECTIONS. THEREFORE, AN AGREEMENT IN PRINCIPLE WITH
THE FUND ON THE REVISED STAND-BY AND THE ANNOUNCEMENT OF
ALL THE MEASURES COULD BE REACHED BY MID-JUNE. THE
FOREIGN MINISTER STATED THAT WE MUST LEARN TO LIVE WITH
AUSTERITY.WITH OR WITHOUT THE FUND THE MEASURES ARE IN-
DISPENSABLE BUT WE ALSO NEED THE FUND'S UNDERSTANDING
AND ADDITIONAL FLEXIBILITY ON THE TIMING OF THE ENTIRE
AUSTERITY PROGRAM.

4. RESCHEDULING: THE FOREIGN MINISTER ASKED FOR

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TREASURY'S COOPERATION IN SELECTIVELY RESCHEDULING PERU'S PUBLIC DEBT. THE GOP WOULD LIKE TO COMPLETE THE

NEGOTIATIONS WITH THE FUND AND THE REFINANCING OF ITS COMMERCIAL DEBT AND OFFICIAL RESCHEDULING OPERATIONS AS CLOSE TOGETHER AS POSSIBLE. PERU HAS SUCCESSFULLY RE-FINANCED ITS MILITARY DEBT WITH THE SOVIET UNION WHICH WOULD BE HELPFUL AND IS DEFERRING CERTAIN PURCHASES FOR THE NAVY. THE GOP IS NOW CONTEMPLATING A "SELECTIVE" RESCHEDULING AND BELIEVES PERU SHOULD NOT PAY MORE THAN 25-30 PERCENT OF ITS EXPORT EARNINGS IN DEBT SERVICE. ACCORDING TO THE FOREIGN MINISTER, 55 PERCENT OF PERU'S CURRENT EXPORT EARNINGS GO FOR DEBT SERVICE. SECRETARY BLUMENTHAL STATED THAT THE U.S. WOULD BE WILLING CONFIDENTIAL

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TO COLLABORATE IN A DEBT RESCHEDULING EXERCISE AFTER AN AGREEMENT WITH THE FUND IS REACHED. HOW THE RESCHEDULING IS ORGANIZED IS MOST IMPORTANT; HE DID NOT THINK IT WOULD BE MOST HELPFUL FOR THE U.S. TO HEAD IT UP.

5. OTHER ASSISTANCE: THE FOREIGN MINISTER EXPRESSED HIS THANKS THAT A $20 MILLION PL-480 PROGRAM HAD RECENTLY BEEN FINALIZED AND STATED THAT IN THE NEXT FISCAL YEAR AN INCREASE IN U.S. FOOD ASSISTANCE TO PERU WOULD BE OF UTMOST IMPORTANCE. IN ADDITION, THE FOREIGN MINISTER

INDICATED THAT HE WAS CONCERNED ABOUT THE LACK OF RE-SOURCES FOR THE PRODUCTIVE SECTOR AND STATED THAT IF THERE IS A POSSIBILITY OF WIDENING THE SPECTRUM FOR EXIM, THIS WOULD BE MOST HELPFUL. CURRENTLY, THE INDUSTRIES ARE WORKING AT 50 PERCENT OF PRODUCTIVE CAPACITY. FINALLY, THE FOREIGN MINISTER STATED THAT ANYTHING THAT TREASURY COULD DO WOULD HELP BUT THIS REQUEST DID NOT MEAN THAT THE GOP MUST HAVE ESF.

6. THE SECRETARY RESPONDED THAT OUR POSSIBILITIES ARE EXTREMELY LIMITED. THE KEY TO EVERYTHING IS IN AGREEMENT WITH THE FUND ALTHOUGH WE RECOGNIZE THE POLITICAL DIFFI-CULTIES THIS MIGHT CAUSE. ON A PERSONAL BASIS, THE SECRETARY PROMISED TO LOOK INTO THE POSSIBILITY OF EXIM FINANCING AND ADDITIONAL PL-480 ALTHOUGH HE STATED THAT IT IS UNLIKELY THAT SIGNIFICANTLY MORE ASSISTANCE COULD BE PROVIDED THIS YEAR. THIS OBVIOUSLY WOULD NOT SOLVE PERU'S BASIC PROBLEM. HE PROMISED TO CALL CHAIRMAN MOORE AND URGE EXIM TO DO WHAT IT CAN BUT THIS WOULD TAKE TIME. FINALLY, SECRETARY BLUMENTHAL EXPLAINED THAT TREASURY DOES NOT HAVE ACCESS TO ESF TO MEET PERU'S KIND OF SITUA-TION. THE SECRETARY APOLOGIZED FOR NOT HAVING A VERY CONFIDENTIAL

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ENCOURAGING RESPONSE TO OFFER THE FOREIGN MINISTER BUT STATED THAT IT WAS HIS HONEST ASSESSMENT OF THE SITUATION.

7. COMMENT: WHILE THE STATEMENTS ON BOTH SIDES WERE QUITE DIRECT, THE EXCHANGES WERE FRIENDLY AND AFTER THE BILATERAL DE LA PUENTE OFFERED THE OBSERVATION TO MARESCA THAT HE FELT THE SECRETARY WAS SINCERE AND WOULD DO ALL THAT WAS POSSIBLE TO HELP. VANCE

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